

## Message Text

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ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 SP-02 L-01 EB-03 INR-05 NSC-05

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AF-04 /059 W

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R 030700Z JUL 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 3286

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY TEHRAN

USINT BAGHDAD

USMISSION OECD PARIS

C O N F I D E N T I A L KUWAIT 2804

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, KU

SUBJ: KOC TAKEOVER TALKS CONTINUE - KUWAIT

REF: A. KUWAIT 2634 B. KUWAIT 2612

SUMMARY: GULF AND BP REPS RETURNED TO KUWAIT JULY 1-2 TO PRESENT  
SEPERATE BUT IDENTICAL TERMS IN CONNECTION WITH GOK TAKEOVER OF  
KOC. COMPANIES' PROPOSALS CALL FOR FIFTEEN-YEAR CRUDE PURCHASE  
AGREEMENT SPLIT INTO THREE FIVE YEAR PACKAGES AND FOR TWENTY  
CENT DISCOUNT AND 120 DAY CREDIT TERMS. GOK ASKED TO SELL  
1.3 MILLION BPD TO COMPANIES DURING FIRST FIVE-YEAR PERIOD AND  
800,00 BPD OVER SECOND FIVE YEAR TERM WITH LAST PORTION OF PERIOD  
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TO BE NEGOTIATED LATER AND COMPANIES ALSO WASNT \$66 MILLION

COMPENSATION FOR THEIR 40 PERCENT KOC ASSETS. GOK RESPONSE ESSENTIALLY NON-COMMITTAL. GULF EXPECTS GOK TO PRESS FOR SEPERATE NEGOTIATIONS. OUTLOOK IS FOR CONTINUING TALKS DURING SUMMER. END SUMMARY.

1. PETE RALSTON OF GULF CALLED ON CHARGE AND ECONOFF JULY 2 TO REPORT ON LATEST MEETING WITH OIL MINISTER KAZEMI REGARDING GOK TAKEOVER OF KUWAIT OIL COMPANY. AS REPORTED REFTELS, GOK HAD ASKED TO NEGOTIATE SEPERATELY WITH GULF AND BP. FOLLOWING MEETINGS IN PITTSBURGH ATTENDED BY GULF CHAIRMAN DORSEY AND SUTCLIFFE OF BP, COMPANIES DECIDED TO MAKE AT LEAST ONE MORE ATTEMPT AT JOINT NEGOTIATION. GULF AND BP PRESENTED IDENTICAL PROPOSALS RESPECTIVELY JULY 1 AND 2. KAZEMI MET WITH RALSTON BUT HE WAS NOT PRESENT AT MEETING WITH BP REP MARSTON-SMITH.

2. GULF/BP TERMS APPARENTLY ARE CLOSE TO THOSE OFFERED BY GOK LAST MARCH. COMPANIES WANT TO OFF-TAKE 1.3 MILLION BPD INITIALLY AND \$66 MILLION COMPENSATION FOR ITS PRESENT 40 PERCENT OF KOC'S ASSETS. COMPANIES WANT MINIMUM 20 CENT DISCOUNT AND CREDIT TERMS AT LEAST 30 DAYS BETTER THAN BEST OFFERED TO OTHER PURCHASERS KUWAIT CRUDE. FYI: NORMALLY 60 DAYS CREDIT ALLOWED, BUT SHELL DEAL IS FOR 90 DAYS. THEREFORE, GULF AND BP ASKING FOR 120 DAYS CREDIT TERMS. END FYI. COMPANIES HAVE ASKED FOR FIFTEEN YEAR CRUDE PURCHASE AGREEMENT CONSISTING OF THREE FIVE-YEAR PACKAGES.

3. GOK REACTION HAS BEEN MORE OR LESS NONCOMMITTAL. KAZEMI TOLD RALSTON HE WOULD PRESENT LATEST PROPOSAL TO COUNCIL OF MINISTERS AT ITS NEXT MEETING SUNDAY JULY 6, AND WOULD RESPOND FOLLOWING MEETING. GOK HAS OFFERED FIFTEEN CENT DISCOUNT AND "NORMAL" 60 DAY CREDIT TERMS. IT HAS ALSO OFFERED TO SELL 1.2 MILLION BPD CRUDE DURING FIRST FIVE YEAR PERIOD AND 800,000 BPD DURING SECOND FIVE-YEAR PERIOD. FINAL FIVE-YEAR PERIOD SALES WOULD BE NEGOTIATED LATER.

4. CRUDE SALES TERMS WILL BE CRITICAL FEATURES OF WHAT COMPANIES REFER TO AS CONSIDERATION FOR CONSESSION RIGHTS BEING TRANSFERRED TO GOK. OTHER FEATURES INCLUDE TECHNICAL ASSISTANCE AND SOME PRODUCT SALES. BP APPARENTLY HAS MENTIONED COOPERATION WITH GOK IN BP REFINERY IN ADEN. GOK INTERESTED IN BUNKERS  
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AND CHARTERING OF KUWAITI FLAG TANKERS. SOME KUWAITI OFFICIALS ALSO A BIT CONCERNED OVER CRUDE-LONG BP TRANSFERRING KUWAITI CRUDE ON ANYTHING BUT OCCASIONAL AS HOC BASIS TO GULF. RALSTON SAID HE SENSED SOME CONCERN AMONG KUWAITIS OVER THEIR ABILITY TO MARKET THEIR CRUDE AND OVER REDUCED INCOME FROM LOWER OIL SALES.

5. RALSTON EXPECTS GOK NOT RPT NOT TO ACCEPT PROOFFERED TERMS

BECAUSE GOK WANTS TO NEGOTIATE SEPERATELY WITH GULF AND BP. THIS PLACES GULF IN DIFFICULT POSITION. AS GOK UNDERSTANDS, GULF MORE DEPENDENT ON KUWAITI CRUDE THAN BP AND IN GENERAL MORE FLEXIBLE HERE THAN BRITISH COMPANY WHICH SEEN BY KUWAITIS AS EXTENSION OF HMG. HOWEVER, GULF HAS MORAL AND LEGAL OBLIGATIONS TO BP THAT WOULD MAKE SEPERATE NEGOTIATIONS DIFFICULT. APPARENTLY BP IS PRESSING GULF NOT TO NEGOTIATE SEPERATELY. BOTH COMPANIES CONCERNED OVER IMPLICATIONS OF KUWAITI NEGOTIATIONS IN OTHER COUNTRIES.

6. RALSTON SAID HE SEES SUMMER PERIOD THROUGH SEPTEMBER AS CRITICAL NEGOTIATING PERIOD. WE AGREED THAT GOK WOULD WANT TO BE ABLE TO PRESENT NEGOTIATIONS TO PARLIMENT WHEN IT RESUMES ITS SESSION IN OCTOBER. MOREOVER, COMPANIES WANT TO NEGOTIATE WITH GOK AND NOT SIMPLY REACT TO VARIOUS SUGGESTIONS THROWN OUT BY KUWAITIS AS HAD BEEN CASE SINCE LAST MARCH. GULF AT LEAST WANTS TO SIT SOWN WITH GOK, EACH WITH ITS OWN PROPOSAL AND NEGOTIATE A SOLUTION, AFTER WHICH SEVERAL OTHER SUBORDINATE PROBLEMS INCLUDING SOME ISSUES UNRESOLVED FOR PAST YEAR OR MORE CAN BE WORKED OUT AND PLANS FOR FUTURE COOPERATION CAN BE DEVELOPED.

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